

Message Text

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QUOTE

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TAGS: BFOL, BR

SUBJECT: US COMPETITIVE POSITION IN BRAZIL--JAPANESE OFFER

TO CESP TOPS IDB TERMS

SUMMARY: THE RECENT EXPERIENCE OF THE SAO PAULO STATE POWER COMPANY, CESP, IN A \$25 MILLION INTERNATIONAL TENDER FOR TELECOMMUNICATIONS EQUIPMENT THROWS INTERESTING LIGHT ON THE US COMPETITIVE POSITION IN BRAZIL AND SHOWS WHY JAPANESE COMPANIES HAVE WON A LARGE NUMBER OF CONTRACTS HERE RECENTLY IN COMPETITION WITH US AND EUROPEAN SUPPLIERS. IN THIS CASE:

-- THE THREE LOWEST BIDS WERE JAPANESE; THE WINNING JAPANESE BID (NEC) WAS 25 PERCENT BELOW THE LOWEST US BID (COLLINS RADIO);

-- THE JAPANESE BID, SUBMITTTED BEFORE THE FEBRUARY YEN RE-VALUATION AND FLOAT, CONTAINED A FIXED EXCHANGE RATE REPAY-

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MENT CLAUSE WHICH GUARANTEED FOR THE LIFE OF FINANCING THE YEN/CRUZEIRO PARITY AT THE DECEMBER 1972 RATE WHEN THE BID WAS SUBMITTED;

-- THE FINANCIAL PACKAGE OFFERED BY THE JAPANESE CONSORTIUM WITH GOJ ASSISTANCE WAS CONSIDERED BY CESP FAR PREFERABLE TO THE TERMS OFFERED BY THE IDB.

THE CESP CASE PROVIDES SEVERAL STRIKING EXAMPLES OF THE CONTRAST BETWEEN THE SOPHISTICATED, HIGHLY PROFESSIONAL APPROACH OF THE JAPANESE COMPANIES AND THE TRADITIONALIST, LARGELY INEFFECTIVE APPROACH OF CERTAIN US COMPANIES. ALTHOUGH THERE WERE INNOVATIONS IN THE JAPANESE PROPOSAL (FINANCING UNDER THE JAPANESE PACKAGE WAS "UNTIED" BUT WITH A "DISCOUNT" FOR PURCHASE IN JAPAN), IT IS OBVIOUS THAT THE JAPANESE WON THIS COMPETITION BY BEING MORE ASTUTE BUSINESSMEN AND NOT BY THE KIND OF "UNFAIR" TACTICS SO WIDELY REPORTED IN THE RECENT COSIPA STEEL BID AWARD (IN WHICH NIPPON STEEL DROVE UP THE QUALIFICATION TERMS FOR COSIPA AND PERSUADED THE BRAZILIAN COMPANY TO USE THE TWO ENVELOPE BID APPROACH WHICH CLEARLY FAVORED THE JAPANESE). US EXPORTERS ARE DOING WELL IN BRAZIL BUT, AS THIS CASE INDICATES, WE MUST BE MORE AGGRESSIVE AND PROFESSIONAL IF WE HOPE TO WIN OUR SHARE OF MAJOR GOVERNMENT CONTRACTS HERE.

END SUMMARY.

1. REPRESENTATIVES OF THE CONSULATE GENERAL MET WITH DR. CELIO PERISINOTI, HEAD OF CESP - CENTRAIS ELETRICAS DE SAO PAULO TENDER DIVISION, TO DISCUSS THE US COMPETITIVE POSITION VIS-A-VIS THIRD COUNTRIES. PERISINOTI COMMENTED THAT AS A GENERAL MATTER THE VOLUME OF CESP ORDERS TO US SUPPLIERS HAS BEEN RELATIVELY SMALL IN RECENT YEARS BECAUSE US PRICES ARE NOT COMPETITIVE. FOR MOST OF THE EQUIPMENT SOURCED INTERNATIONALLY BY CESP. DR. PERISINOTI REPORTS THAT THE ONLY SIGNIFICANT ORDER WON BY US SUPPLIERS RECENTLY WAS FOR A COUPLE OF CRANES (P&H/VILLARES).

2. DURING THE MEETING, THE LAST LARGE TENDER FOR TELECOMMUNICATIONS (MICROWAVE) EQUIPMENT, VALUED ABOUT US\$25 MILLION, WAS DISCUSSED. THIS TENDER WAS CLOSED ON DECEMBER 1972 AND CESP HAS NOT YET SIGNED THE ORDERS WITH THE WINNER, A CONSORTIUM LED BY NEC-NIPPON ELECTRIC WITH OTHER JAPANESE AND LIMITED OFFICIAL USE

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SOME BRAZILIAN SUPPLIERS. PRODUCTS TO BE ORDERED THROUGH THIS TENDER WERE GROUPED INTO SIX CATEGORIES AND BIDDERS WERE PERMITTED TO SUBMIT THEIR BIDS FOR THE WHOLE PACKAGE OR FOR INDIVIDUAL CATEGORIES. IN CASE OF A BID FOR THE WHOLE PACKAGE, A BONUS OF 3 PERCENT WAS GRANTED TO BE HEAD OF THE CONSORTIUM. TO FINANCE THIS PURCHASE CESP HAD OBTAINED A \$25 MILLION IDB LOAN COMMITMENT IN US DOLLARS AND IN DM. TERMS: 20 YEARS INCLUDING 4 YEAR GRACE PERIOD, 8 PERCENT INTEREST RATE, 2 PERCENT INTEREST ON THE UNDISBURSED DM AND 1 1/2 PERCENT ON THE UNDISBURSED US DOLLAR BALANCE. UNDER LOAN TERMS, CESP WAS ALSO CHARGED A SERVICE FEE IN THE AMOUNT OF US\$665,000.

3. EIGHTEEN FIRMS REPRESENTING BRAZIL, THE US (COLLINS RADIO AND MOTOROLA), JAPAN AND OTHER COUNTRIES SUBMITTED BIDS IN DECEMBER 1972.

4. CESP OFFICIALS STATED THAT LOWEST THREE BIDDERS WERE ALL JAPANESE, AND THAT THEIR QUOTE AGGRESSIVENESS UNQUOTE WAS MOST IMPRESSIVE. FOR EXAMPLE, DURING BID-OPENING, EACH BIDDER WAS ALLOWED FOUR HOURS IN PRIVATE TO STUDY ALL BIDS. JAPANESE FIRMS SENT TEAMS IN WITH CAMERAS AND TOOK PICTURES OF ALL BIDS. COLLINS, ON THE OTHER HAND, SENT SEVERAL PEOPLE TO READ THROUGH THE MASSIVE DOCUMENTS (ONE JAPANESE BID WAS OVER 500 PAGES). IT BECAME CLEAR THROUGH A SUBSEQUENT CONVERSATION BETWEEN A COLLINS REPRESENTATIVE AND THE EMBASSY IN BRASILIA THAT THEIR BID READERS DID NOT GET A FULL PICTURE OF THEIR COMPETITORS' OFFERS (OR, IF THEY DID, THEY DID NOT CONVEY THIS TO THE AMBASSADOR). BASED ON THAT CONVERSATION, CONGEN SAO PAULO THEN MADE REPRESENTATIONS TO CESP AS DID EXIMBANK DEPUTY VICE PRESIDENT O'CONNOR DURING A SUBSEQUENT SAO PAULO VISIT WHEN HE PAID A COURTESY CALL AT CESP. IN ADDITION COLLINS GOT VIP TREATMENT, INCLUDING A 1 1/2 HOUR PRIVATE SESSION WITH CESP'S PRESIDENT. IN THIS CASE, HOWEVER, BECAUSE OF FAULTY INFORMATION, WE WASTED OUR AMMUNITION AND TO SOME EXTENT OUR GOOD WILL AT CESP BECAUSE THE THREE JAPANESE BIDS WERE SO FAR SUPERIOR TO THE TWO US BIDS THAT EXPRESSIONS OF "INTEREST" AND "CONCERN" BY USG OFFICIALS WERE BOTH INAPPROPRIATE AND INEFFECTIVE.

5. DR. PERISINOTI REPORTED THAT IN ADDITION TO THE 25 PERCENT PRICE DIFFERENTIAL, THE JAPANESE CONSORTIUM OFFERED A FINANCIAL LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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PACKAGE WHICH WAS MORE ATTRACTIVE THAN THE IDB LAON ON WHICH THE US BIDDERS HAD RELIED. THE NEC BID INCLUDED A FINANCING PACKAGE IN THE FORM OF AN "UNTIED" SUPPLIER'S CREDIT WITH THE FOLLOWING TERMS: (A) SEVEN PERCENT INTEREST RATE, (B) FOUR YEARS GRACE PERIOD PLUS SEMI ANNUAL REPAYMENTS OVER A 14 YEAR PERIOD, WITH PAYMENT OF THE INTEREST ACCRUED DURING THE GRACE PERIOD AT THE TIME OF THE FIRST REPAYMENT OF PRINCIPAL, (C) A FURTHER DISCOUNT ON VARIOUS ITEMS RANGING FROM 15.6 PERCENT TO 44.6 PERCENT IF SOURCED IN JAPAN, (D) A FIXED YEN/CRUZEIRO EXCHANGE RATE PARITY FOR THE FULL LIFE OF THE LOAN, SO THAT CRUZEIRO PAYMENTS WOULD BE CREDITED AGAINST THE LOAN AT THE EXCHANGE RATE APPLICABLE ON THE DATE OF NEC'S BID SUBMISSION, AND (E) AN UNDERTAKING THAT, IF NEC WAS AWARDED THE TENDER FOR THE BASIC SECTOR WORK AND DID NOT WIN THE TENDER FOR THE OTHER FIVE PARTS OF PROJECT, IT WOULD ASSUME FULL RESPONSIBILITY FOR ENSURING THAT THE OTHER SECTORS WERE COMPLETED ACCORDING TO SPECS, IN RETURN FOR A 3 PERCENT BONUS PAYMENT.

6. IN DR. PERISINOTI'S OPINION, NEC'S CREDIT PROPOSAL WAS FAR BETTER FOR CESP THAN THE IDB'S, ALTHOUGH THE LOAN PERIOD IS

SHORTER. CESP CONSIDERS THE IDB VERY BUREAUCRATIC AND HAS BEEN ANNOYED WITH THE LARGE NUMBER OF TIME CONSUMING IDB OPERATIONS, SUCH AS THE GREAT NUMBER OF REPORTS, INSPECTION MISSIONS AND OTHER ADMINISTRATIVE DETAILS REQUIRED FOR EACH LOAN. ACCORDING TO THEIR CALCULATION, THE SUPPLIERS CREDIT WAS NOT ONLY PREFERABLE ADMINISTRATIVELY BUT ACTUALLY CHEAPER TO CESP THAN THE IDB'S TERMS.

7. DR. PERISINOTI ALSO COMMENTED ABOUT THE LACK OF AGGRESSIVENESS FROM US SUPPLIERS IN GENERAL, AND COLLINS IN PARTICULAR, VIS-A-VIS THE JAPANESE SUPPLIERS. ANOTHER EXAMPLE GIVEN WAS THE RECENTLY OPENED BID FOR ELECTRIC TOWERS, WHEN THE JAPANESE PROPOSAL WAS TO IMPORT FROM JAPAN THE SPECIAL STEEL AND TO INSTALL IN THE SAO PAULO AREA A COMPLETE NEW PLANT TO MANUFACTURE THEM.

8. COMMENT: IN THIS CASE, WE KNOW OF NO EVIDENCE OF "UNFAIR" PRACTICES WHICH GAVE THE JAPANESE THE EDGE. ON THE CONTRARY CESP SEEMED TO HAVE GONE OUT OF ITS WAY TO ASSURE THAT THE US PROPOSALS WERE FULLY CONSIDERED. NEVERTHELESS, THE COMMON PERCEPTION REMAINS IN THIS AND A NUMBER OF OTHER LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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RECENT TENDERS AWARDED TO THE JAPANESE THAT THEY HAVE SOMEHOW MANAGED TO GAIN AN UNFAIR ADVANTAGE. THE CLASSIC VERSION OF THIS THEME, INVOLVING AWARDS TO THE JAPANESE FOR A LARGE NUMBER OF STEEL EQUIPMENT CONTRACTS TOTALING WELL OVER \$200 MILLION LAST YEAR IS DESCRIBED IN "THE GREAT BRAZILIAN EQUIPMENT COMPETITION" :BY NAT MCKETTERICH, WASHINGTON D.C.--SEE REPRINT IN APRIL 12 ISSUE OF "BUSINESS LATIN AMERICA". MCKITTERICH DOCUMENTS COMPELLINGLY THE TECHNIQUES USED BY THE JAPANESE TO WIN THESE MAJOR AWARDS. IN THE CESP MICROWAVE AWARD, HOWEVER--ASIDE FROM WHATEVER GOJ SUBSIDIES REMAIN HIDDEN IN THE JAPANESE SYSTEM--IT WAS A CLEAR CASE OF BETTER PLANNING, A MORE SOPHISTICATED ANALYSIS OF CESP'S REQUIREMENTS, DEVELOPMENT OF A MORE ATTRACTIVE FINANCIAL PACKAGE AND, OF COURSE, AN ABILITY TO OFFER HARDWARE AND SERVICES--AT LEAST ON A PRE-FEBRUARY 1973 YEN REVALUATION AND FLOAT BASIS--AT PRICES SIGNIFICANTLY LOWER THAN THOSE FROM EUROPEAN AND AMERICAN SUPPLIERS. CHAPIN

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